FISCAL NOTE

TO: Chief Clerk of the Senate
Chief Clerk of the House

FROM: James A. Davenport, Executive Director

DATE: February 26, 1996

SUBJECT: **SB 2185 - HB 2789**

This bill, if enacted, will:

1. clarify several provisions of the Tennessee Employee Leasing Act passed in 1994;
2. remove the requirement of a background check on employee leasing companies;
3. allow the Commissioner of Commerce and Insurance to set application fees;
4. provide applicants an opportunity to *cure* reasons for denial of their applications to be employee leasing companies;
5. delete the current requirement to wait a year to reapply if the original application is denied;
6. allow employee leasing companies a grace period of up to six months if they forget to renew on time;
7. set up a committee to adopt planned criteria for employee leasing companies to provide self-insurance for health benefits of their employees;
8. provide for a $1,000 fine for each violation of this act instead of the current $100;
9. add a new section which would reduce the local business tax on such businesses.

The fiscal impact from enactment of this bill is estimated to be a decrease in state revenues of between $18,750 - $37,500 and a decrease in local government revenues of between $106,250 - $212,500. This estimate is based on the following:

a) the local business tax on employee leasing companies is 1/8th of 1% of gross receipts.

b) in 1996-97 approximately 55-60 businesses will request licenses as employee leasing businesses from the Department of Commerce and Insurance with estimated gross receipts of such businesses being $125,000,000.

c) local business tax collections on this activity would be $156,250 - $312,500. The range applies since both city and county governments can impose the tax; the tax potential on such activity therefore depends on where such businesses are located.

d) assuming that employee wages and employee payroll taxes account for 80% of the receipts of such businesses, an exemption of such costs would reduce the tax base by $100,000,000.

e) the potential tax loss from such a change would be $125,000 - $250,000. Of this amount, the local tax loss would be $106,250 - $212,500 and state loss (15% of local collections) - $18,750 - $37,500.

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

James A. Davenport, Executive Director